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RUEHMN/AMEMBASSY MONTEVIDEO 2460  
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RUEHLP/AMEMBASSY LA PAZ 3509  
RUCPDO/USDOC WASHDC 2920  
RUEATRS/DEPT OF TREASURY WASHDC  
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UNCLAS SAO PAULO 000819

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STATE FOR WHA/BSC, WHA/EPSC  
STATE PASS USTR FOR KATE DUCKWORTH  
STATE PASS FED BOARD OF GOVERNORS FOR ROBITAILLE  
STATE PASS EXIMBANK  
STATE PASS OPIC FOR DEMROSE, NRIVERA, CMERVENNE  
NSC FOR TOMASULO  
TREASURY FOR JHOEK  
USDOC FOR 4332/ITA/MAC/WH/OLAC  
USDOC ALSO FOR 3134/USFCS

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TAGS: [EFIN](#) [ECON](#) [BR](#)

SUBJECT: BRAZILIAN STOCK EXCHANGE INDEX BREAKS RECORD

REF: SAO PAULO 709

¶1. On September 27, the primary index on Brazil's stock exchange surpassed 60,000 points for the first time in its history. The Ibovespa, the main indicator of the Brazilian stock market's average performance, gained nearly 11 percent in the month of September, and is up 36 percent in 2007. It is the only Latin American index to recover all its losses in the wake of the August U.S. sub-prime credit crisis (reftel).

¶2. A rush of foreign capital is contributing to the Ibovespa's rise as investors seek to take advantage of growth in emerging markets. Executives from Banco Itau and Unibanco, two of Brazil's largest banks, pointed to turmoil in the U.S. and Europe as one of the primary drivers for an increase in foreign portfolio investment particularly in emerging markets such as Brazil. Brazil is an attractive option because of high commodity prices, the strength of the currency (Real), and the view that the growth of the Brazilian economy is stable and may be accelerating. In the first three weeks of September alone, foreign portfolio investment in the Brazilian stock market totaled approximately USD 970 million.

¶3. Bank representatives stated that they remain optimistic for further growth of the Ibovespa as they view Brazilian stocks as undervalued. They estimated that Ibovespa would continue to climb in coming weeks until reaching 65,000 points, when investors could begin to sell off their investments, which would cool the overall growth of the market. Their collective forecast for the year-end Ibovespa performance is on the order of 63,000 which would result in an end of year performance of 39 percent for 2007.

¶4. A research analyst at Morgan Stanley also informed Econoffs that during a recent series of meetings with clients in Europe and the U.S., investors displayed very high levels of confidence in Brazil and see strong economic fundamentals and growing domestic demand as driving future growth in the country. In addition, the analyst pointed out that Mexico and Argentina did not have the confidence of

investors which may also be contributing to larger inflows of investment into Brazil as investors seek to invest in those emerging markets with the most sound fundamentals and prospects for positive returns.

¶5. Comment: Although the consensus suggests that Brazil's positive stock market performance is here to stay, Brazil is entering uncharted territory. While low inflation, interest rates approaching single digits, and an exchange rate beneath the psychological barrier of USD 2 to 1 Real point to continued positive returns in the Ibovespa, much of this rise is due to foreign investment which is highly agile and can move quickly. While there remain concerns over the lack of reforms, infrastructure obstacles, a less than friendly business environment, and other economic challenges, the overall sense seems to be that the lack of reforms in these areas is merely a missed opportunity and is not of overriding concern for the near term. End Comment.

¶6. This cable was coordinated with Embassy Brasilia.

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